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1970

THE GRANBY MINING COMPANY LIMITED

70th ANNUAL REPORT

THE GRANBY MINING COMPANY LIMITED

DIRECTORS

Walter M. Colley
Marsh A. Cooper
*Thomas G. Ewart
Alfred H. Hauser

William F. James
William G. Lane
*Robert M. MacRae

P. Robert Matthew
*Lawrence T. Postle
George T. Smith
*Rene R. Woolcott

*Members of Executive Committee

OFFICERS

Lawrence T. Postle	President
Robert M. MacRae	Vice-President
P. Robert Matthew	Vice-President
John H. Colton	Secretary and Treasurer
William G. Gourlay	Assistant Secretary
John D. Balden	Assistant Treasurer

TRANSFER AGENTS

The Canada Trust Company, Vancouver, British Columbia
The Canada Trust Company, Toronto, Ontario
Chemical Bank, New York, N.Y.

REGISTRARS

National Trust Company, Limited, Vancouver, British Columbia
National Trust Company, Limited, Toronto, Ontario
The Chase Manhattan Bank, N.A., New York, N.Y.

SHARES LISTED

New York Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

AUDITORS

Peat, Marwick, Mitchell & Co., Vancouver, British Columbia

HEAD OFFICE

1111 West Georgia Street, Vancouver 5, British Columbia

THE GRANBY MINING COMPANY LIMITED

Vancouver, British Columbia
March 15, 1971

To the Shareholders:

The 70th Annual Report of your Company is presented herewith.

During 1970, The Granby Mining Company Limited increased its holdings of shares in Granisle Copper Limited from 1,785,382 shares (53.6%) at December 31, 1969, to 2,223,706 shares (66.8%) at December 31, 1970. At December 31, 1970, Pacific Holding Corporation of Los Angeles, California, U.S.A., reported that it held 734,550 shares (50.9%) of The Granby Mining Company Limited.

World copper prices reached a high of about 80¢ U.S. in March, 1970, and declined rapidly throughout the remainder of the year to a low of about 47¢ U.S. in December, 1970.

Although production was maintained at a satisfactory level in 1970, lower copper prices, together with higher income taxes, the negative effect of the revaluation of the Canadian dollar, and increased expenditure on exploration, resulted in sharply decreased earnings for the year compared with 1969.

Net Income for 1970 was \$4,344,953, or \$3.01 per share, compared with \$6,778,828 or \$4.69 per share, in 1969.

Dividends paid in 1970, at \$1.60 U.S. per share, totalled \$2,416,974.

Ore reserves at the Phoenix mine consist of 1,865,000 tons with an average copper content of .78% that can be mined at an ore to waste ratio of 1 to 3.1. In addition, there is a low-grade stockpile of about 3,000,000 tons containing .40% copper that can be treated at a lower profit after the ore reserves are exhausted. It has been necessary to reduce the pit wall slope to maintain rock stability; consequently 684,000 tons have been removed from the previously stated ore reserves.

Production statistics of the Phoenix Copper Division for 1970, compared with 1969, are as follows:—

	1970	1969
Tons Ore Treated.....	862,156	759,299
Average Tons Treated per Day.....	2,362	2,080
Copper Content (%).....	0.77	0.75
Tons Waste Removed.....	4,570,812	3,966,542
Saleable Metal Produced:		
Copper (Lbs.).....	11,019,611	9,107,040
Gold (Ounces).....	11,827	15,267
Silver (Ounces).....	123,046	85,855
Average Copper Price Received per Lb.....	60.6¢	69.6¢

GRANISLE COPPER LIMITED

Details of Granisle's production for the year, compared with 1969, are:

	1970	1969
Tons Ore Treated.....	2,391,161	2,329,857
Average Tons Treated per Day.....	6,551	6,383
Copper Content (%).....	0.55	0.60
Tons Waste Removed.....	1,621,221	1,143,014
Saleable Metal Produced:		
Copper (Lbs.).....	22,791,847	24,080,828
Gold (Ounces).....	10,545	15,166
Silver (Ounces).....	94,777	135,792
Average Copper Price Received per Lb.....	58.6¢	71.0¢

THE GRANBY MINING COMPANY LIMITED

In 1970, the diamond drilling program to investigate the area around the ore body and to determine its characteristic to depth was continued from the preceding year; drilling totalled 58,402 feet.

From the results of this drilling, ore reserves are calculated to be 89,600,000 tons containing 0.44% copper that can be mined at an ore to waste ratio of 1 to 1.2.

The substantial increase in ore reserves warrants consideration of an increase in plant capacity. Studies were commenced in mid-year to determine the most efficient expanded plant design and cost estimates are being prepared so that the most profitable size and arrangement can be selected.

It is expected that these matters can be settled at an early date so that construction could commence this summer with a probable completion late in 1972.

The major item of capital expenditure at Granisle in 1970 was the replacement of the original fleet of 35-ton trucks with new 50-ton trucks.

During 1970, Mr. H. R. Malkin resigned as a Director of Granisle, and Mr. Rene R. Woolcott, President and Chief Executive Officer of Pacific Holding Corporation, and Chairman of the Executive Committee and Director of The Granby Mining Company Limited, and Mr. Walter M. Colley, Senior Vice-President, Finance, and Director of Pacific Holding Corporation, and a Director of The Granby Mining Company Limited, were elected Directors of Granisle Copper Limited.

GRANBY — GENERAL

Exploration activities were increased in 1970. The main area of investigation was centered around the Phoenix mine. An exploration office was established at Smithers in central British Columbia. Many mineral occurrences were examined during the year. Two of these warrant further work in 1971. The Company continued to participate in several syndicates operating in British Columbia, other parts of Canada, and one in Mexico.

An arrangement has been made for Granisle Copper Limited to participate with the Company in all new exploration projects conducted by Granby, commencing in 1971.

During the year, Mr. J. S. Nye resigned from the Board and Mr. Walter M. Colley was elected a Director.

The Annual General Meeting of the Company will be held in the Hotel Vancouver, Vancouver, British Columbia, at 11:00 a.m., Thursday, April 22, 1971.

In 1970, the Phoenix mine was accorded the honour of being designated by the British Columbia Department of Mines as having the best safety record among open pit mines in British Columbia.

The Board of Directors commend the efforts and co-operation of the Company's staff throughout the year.

On behalf of the Board,

L.T. POSTLE,
President.

THE GRANBY MINING COMPANY

CONSOLIDATED

December 31, 1970

(With comparative figures for 1969)

ASSETS

	1970	1969
Current assets:		
Cash and short-term deposits.....	\$13,145,876	14,778,976
Marketable securities, at cost (market value \$4,607,895, 1969 \$5,864,443).....	4,430,127	4,593,933
Accounts receivable.....	135,675	359,112
Metals in concentrates, at estimated realizable value.....	2,442,571	4,549,220
Materials and supplies, at cost.....	1,221,445	1,110,368
Prepaid expenses.....	35,667	51,728
Total current assets.....	21,411,361	25,443,337
Refundable deposits and sundry assets.....	499,736	515,024
Property, plant and equipment, at cost (Note 3).....	24,180,466	19,223,457
Less accumulated depreciation and depletion.....	7,821,279	6,664,771
	16,359,187	12,558,686
Deferred charges, less amortization:		
Mine development and pre-production expenditure (Note 3)...	417,487	895,453
Retirement plan contribution.....	274,552	297,432
	692,039	1,192,885
	<u>\$38,962,323</u>	<u>39,709,932</u>

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

We have examined the consolidated balance sheet of The Granby Mining Company Limited and subsidiaries as of December 31, 1970 and the consolidated statements of earnings, retained earnings and contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1970 and the results of their

LIMITED AND SUBSIDIARIES

Balance Sheet

, 1970

for 1969) (Note 11)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
Current liabilities:		
Accounts payable and accrued liabilities	\$ 842,207	921,105
Income taxes payable	824,717	1,096,139
Total current liabilities	1,666,924	2,017,244
Deferred income taxes (Note 4)	365,000	237,000
Minority interest in subsidiary	6,924,743	9,378,011
Shareholders' equity (Notes 5 and 6):		
Capital stock:		
Authorized 6,000,000 shares par value \$1.66-2/3 per share; issued and outstanding 1,444,371 shares	2,407,285	2,407,285
Contributed surplus, per accompanying statement	1,241,502	1,241,502
Retained earnings, per accompanying statement	26,356,869	24,428,890
Total shareholders' equity	30,005,656	28,077,677
Contingent liability (Note 10).		
	<u>\$38,962,323</u>	<u>39,709,932</u>

On behalf of the Board:

L.T. POSTLE, Director

R.M. MacRAE, Director

THE SHAREHOLDERS

operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles, which except for the change in the method of calculating depreciation and depletion (of which we approve) as described in Note 3 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
January 28, 1971

PEAT, MARWICK, MITCHELL & CO.

Chartered Accountants

THE GRANBY MINING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1970

(With comparative figures for 1969) (Note 11)

	1970	1969
Value of production of copper, gold and silver	\$19,966,102	23,739,238
Cost of production	9,025,257	8,012,612
Depreciation, depletion and amortization	2,502,938	2,159,578
Outside exploration	639,247	266,803
Administration	706,810	610,450
Loss on U.S. exchange due to revaluation of Canadian dollar (Note 7)	634,406	—
	<u>13,508,658</u>	<u>11,049,443</u>
Operating profit	6,457,444	12,689,795
Investment and other income	1,484,120	1,234,057
Earnings before income taxes and minority interest	7,941,564	13,923,852
Provision for income taxes (Note 4):		
Current	2,025,000	1,605,000
Deferred	128,000	(15,000)
	<u>2,153,000</u>	<u>1,590,000</u>
Earnings before minority interest in net earnings of subsidiary	5,788,564	12,333,852
Minority interest in net earnings of subsidiary	1,948,299	5,135,024
Earnings before extraordinary items	3,840,265	7,198,828
Extraordinary items:		
Gain on sale of mining properties (Note 8)	504,688	—
Amount written off investment in Jedway Iron Ore Limited (Note 1)	—	(420,000)
Net earnings for the year	<u>\$ 4,344,953</u>	<u>6,778,828</u>
Per share earnings:		
Net earnings before extraordinary items	\$2.66	4.98
Extraordinary items35	(.29)
Net earnings for the year	<u>\$3.01</u>	<u>4.69</u>
Number of shares outstanding	<u>1,444,371</u>	<u>1,444,371</u>

See accompanying notes to consolidated financial statements.

THE GRANBY MINING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND CONTRIBUTED SURPLUS

Year ended December 31, 1970
(With comparative figures for 1969)

	1970	1969
Retained earnings:		
Balance at beginning of year	\$24,428,890	20,759,567
Add net earnings for the year	4,344,953	6,778,828
	28,773,843	27,538,395
Deduct cash dividends of \$1.60 U.S. per share (\$2.00 U.S. in 1969)	2,416,974	3,109,505
Balance at end of year	\$26,356,869	24,428,890
	1970	1969
Contributed surplus:		
Balance unchanged during the year	\$ 1,241,502	1,241,502

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1970
(With comparative figures for 1969) (Note 11)

	1970	1969
Funds provided by:		
Operations:		
Net earnings for the year	\$ 4,344,953	6,778,828
Depreciation, depletion and amortization	2,502,938	2,159,578
Deferred income taxes	128,000	(15,000)
Other	(134,819)	(27,989)
Funds provided by operations	6,841,072	8,895,417
Disposal of property, plant and equipment	507,341	270,356
Reduction of other assets	15,288	230,322
Increase in minority interest in subsidiary	—	1,675,135
Total funds provided	7,363,701	11,071,230
Funds applied to:		
Purchase of property, plant and equipment	2,766,516	1,771,989
Excess cost on acquisition of shares in subsidiary, allocated to mineral claims	3,408,599	1,509,062
Decrease in minority interest in subsidiary	2,453,268	—
Dividends paid	2,416,974	3,109,505
Total funds applied	11,045,357	6,390,556
Increase (decrease) in working capital	(3,681,656)	4,680,674
Working capital at beginning of year	23,426,093	18,745,419
Working capital at end of year	\$19,744,437	23,426,093
See accompanying notes to consolidated financial statements.		

THE GRANBY MINING COMPANY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

1. PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statements include the accounts of The Granby Mining Company Limited and subsidiaries, Granisle Copper Limited and certain inactive companies, after elimination of all significant inter-company items and transactions. During 1970 the company increased its share ownership of Granisle Copper Limited from 53.6% to 66.8%. The financial statements of a subsidiary, Jedway Iron Ore Limited, have not been consolidated as its mining operations have ceased and the investment therein is considered to have no value.

2. CONVERSION OF UNITED STATES CURRENCY:

Current assets in United States dollars have been converted into Canadian dollars at the rate of exchange prevailing at December 31, 1970.

3. PROPERTY, PLANT AND EQUIPMENT:

Particulars of the cost of property, plant and equipment are as follows:

	December 31	
	1970	1969
Mineral claims	\$ 5,130,567	1,721,968
Land	71,978	62,392
Mine buildings and equipment	13,668,366	12,929,516
Mobile and other equipment	5,309,555	4,509,581
	<u>\$24,180,466</u>	<u>19,223,457</u>

The excess of cost of shares in a subsidiary, Granisle Copper Limited, over net book value at time of acquisition of \$4,917,661 (\$1,509,062 at December 31, 1969) has been allocated to mineral claims which are being amortized on the basis of the proportion of the yearly production of ore to the estimated ore reserves of the Granisle mine which have been increased during 1970. If the previous year's amortization rate had been used the amount written off the excess acquisition cost would have been increased by approximately \$221,000.

During the year the company changed its basis of providing depreciation and depletion of its Phoenix mine buildings and equipment and mineral claims to one which is designed to amortize the written down value of these assets at December 31, 1969 and the cost of subsequent additions over the four years ending December 31, 1973. If the same rates had been used as were applicable in 1969 the provision for depreciation and depletion on these assets would have been increased by approximately \$20,000. Depreciation of Granisle's mine buildings and equipment is calculated on the straight-line method at 8% of cost. Depreciation of all mobile equipment is calculated on the diminishing balance method at 30%.

Amortization of the pre-production expenditure of the Granisle mine is calculated on the straight-line method at 20% and the balance of these costs will be fully amortized in 1971.

4. INCOME TAXES:

The depreciation and amortization which will be claimed for income tax purposes will exceed the amount recorded in the accounts. The consolidated provision for deferred income taxes in 1970 would, under normal circumstances, have amounted to \$1,518,000. The company's subsidiary, Granisle Copper Limited, had however provided depreciation and amortization during its tax-free period which did not have to be claimed for income tax purposes, and as a result, the consolidated provision for deferred income taxes has been reduced by \$1,390,000 to \$128,000.

5. CAPITAL STOCK:

Under the company's "Restricted Stock Option Plan", dated January 13, 1960, 138,000 shares of The Granby Mining Company Limited stock were reserved for the granting of options to key employees,

THE GRANBY MINING COMPANY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued)

DECEMBER 31, 1970

the purchase price per share being 10% above the market value at the date of the grant. The options are for a term of ten years from the date of the grant, and there are certain limitations on the number of shares that can be acquired in the first five years. No options were granted in 1970. An option on 2,000 shares at \$38.23 U.S. per share was outstanding at December 31, 1969 and 1970. Unallocated shares under the plan totalled 54,400 shares at December 31, 1970.

6. RETAINED EARNINGS:

The company acquired control of Granisle Copper Limited in 1969. Under the provisions of the Federal Income Tax Act, the retained earnings, as defined, of this subsidiary at the time of acquisition which were approximately \$8,360,000, became a "designated surplus" for income tax purposes. At December 31, 1970, the company's share of this designated surplus amounted to approximately \$5,580,000. If all, or part, of this amount is distributed by Granisle Copper Limited to the company, income taxes of approximately 50% would be payable on the amount received.

7. LOSS ON U.S. EXCHANGE:

On May 31, 1970, the Canadian dollar was unpegged and the effect of this revaluation was to reduce the value of the consolidated current assets in U.S. dollars at that date by \$634,406.

8. GAIN ON SALE OF MINING PROPERTIES:

The gain on sale of mining properties of \$504,688 is a final amount received on account of the sale of mining properties which took place in 1967.

9. ADMINISTRATION:

Remuneration of directors and senior officers (as defined in the British Columbia Securities Act) amounted to \$280,243 in 1970 (\$276,665 in 1969).

10. CONTINGENT LIABILITY:

On January 19, 1970, Silver Standard Mines Ltd. (N.P.L.) obtained a Judgment against The Granby Mining Company Limited and Jedway Iron Ore Limited in the amount of \$10,265 and costs to be taxed. The obligation of The Granby Mining Company Limited under that Judgment arises by reason of its having guaranteed the liabilities of Jedway Iron Ore Limited to Silver Standard Mines Ltd. (N.P.L.) under an agreement dated January 20, 1961. Unless the Judgment is set aside it, in effect, means Jedway Iron Ore Limited has a liability to Silver Standard Mines Ltd. (N.P.L.) which obligates it to pay quarterly to Silver Standard Mines Ltd. (N.P.L.) interest at 6% per annum from April 1, 1968 on a principal amount of \$684,200 which was reduced to \$670,454 by July 25, 1968. The principal amount is not required to be paid but by reason of the Judgment interest at 6% per annum continues to be payable thereon. The Judgment also means that if Jedway Iron Ore Limited defaults (an event which is likely to occur) The Granby Mining Company Limited, as guarantor, must assume that liability. On the recommendation of counsel both The Granby Mining Company Limited and Jedway Iron Ore Limited appealed the Judgment to the Court of Appeal of British Columbia. The proceedings before that Court terminated on January 14, 1971 and on that day its decision on the appeal was reserved. The Court of Appeal has not as yet rendered its decision but it is anticipated the same will be rendered sometime during the spring of 1971. Accordingly, no provision has been made in the accounts for accrued interest, the said costs to be taxed and the costs of the said appeal which, at December 31, 1970, amounted to approximately \$130,000.

11. COMPARATIVE FIGURES:

The consolidated financial statements for the year ended December 31, 1969, as previously reported, have been restated where applicable to conform with the presentation used in the current year.

